

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE	)	
CORPORATION OF KENTUCKY FOR A	)	CASE NO.
GENERAL ADJUSTMENT IN EXISTING RATES	)	2015-00382

ORDER

On November 30, 2015, Water Service Corporation of Kentucky (“WSKY”) filed an application for an adjustment of its rates for water service. The application proposed that the new rates become effective on December 30, 2015. In its application, WSKY requested permission to deviate from the filing requirements of 807 KAR 5:001, Section 16(n), which requires the filing of a summary of the utility’s latest depreciation study.

In support of its request to deviate from 807 KAR 5:001, Section 16(n), WSKY states that it has not performed a depreciation study<sup>1</sup> and that the depreciation rates it proposes in its application are consistent with and supported by the National Association of Regulatory Utility Commissioners’ Study of Depreciation Practices for Small Water Utilities, which the Commission has generally relied upon to evaluate the reasonableness of the depreciation practices of small water utilities.<sup>2</sup>

Having reviewed WSKY’s application, the Commission finds that WSKY has established good cause to permit it to deviate from the filing requirements of 807 KAR 5:001, Section 16(n), and that with this deviation WSKY’s application meets the minimum filing requirements and should be deemed filed as of the date of this Order.

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<sup>1</sup> Application at 4, numbered paragraph 23.

<sup>2</sup> Application, Exhibit 5, Direct Testimony of Brian N. Halloran at 12, Answer to Question 34.

KRS 278.180(1) provides that no change shall be made in any rate except upon 30 days' notice to the Commission. Although WSKY's revised tariff pages contain a proposed effective date of December 30, 2015, pursuant to the 30-days' notice requirement and based on the December 9, 2015 filed date, the earliest possible effective date for WSKY's proposed rates is January 8, 2016. Based on a review of the application, the Commission further finds that an investigation will be necessary to determine the reasonableness of the proposed rates and the investigation cannot be completed by January 8, 2016. Therefore, pursuant to KRS 278.190(2), the Commission will suspend the effective date of the proposed rates for five months and establish a schedule for review of the proposed rates.

IT IS THEREFORE ORDERED that:

1. The proposed rates set forth in WSKY's application are suspended for five months from January 8, 2015, up to and including June 7, 2016.
2. WSKY's request to deviate from the requirements of 807 KAR 5:001, Section 16(n), is granted
3. The procedural schedule set forth in Appendix A to this Order shall be followed.
4. The information requested in Appendix B to this Order is due on or before December 21, 2015.
  - a. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with an original in paper medium and an electronic version to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. When filing a paper containing personal information, WSKY shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

5. Any party filing testimony shall file in accordance with the electronic filing procedures set forth in 807 KAR 5:001, Section 8, with one copy in paper medium to the Commission.

6. Requests for intervention shall be filed no later than December 22, 2015. Any person who submits a motion to intervene after December 22, 2015, and upon a showing of good cause is granted full intervention, shall accept and abide by the existing procedural schedule.

7. WSKY shall give notice of the hearing in accordance with the provisions set out in 807 KAR 5:001, Section 9(2)(b). At the time publication is requested, WSKY shall forward a duplicate of the notice and request to the Commission.

8. At any hearing in this matter, neither opening statements nor summarization of written testimony shall be permitted.

9. Any objections or motions relating to discovery or procedural dates shall be filed upon four business days' notice or the filing party shall explain, in writing, why such notice was not possible.

10. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

11. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission

ENTERED  
DEC 09 2015  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

Case No. 2015-00382

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2015-00382 DATED **DEC 09 2015**

- WSKY shall file with the Commission its responses to the Commission's first request for information shown in Appendix B no later than ..... 12/21/2015
- Requests for intervention shall be filed no later than ..... 12/22/2015
- All requests for information to WSKY and the Commission's second request for information shall be filed no later than ..... 01/04/2016
- WSKY shall file responses to the requests for information no later than ..... 01/19/2016
- Supplemental requests for information to WSKY and the Commission's third request for information shall be filed no later than ..... 01/29/2016
- WSKY shall file responses to supplemental requests for information no later than ..... 02/10/2016
- Intervenor testimony, if any, in verified prepared forms shall be filed no later than ..... 02/22/2016
- Requests for information to Intervenors shall be filed no later than ..... 03/01/2016
- Intervenors shall file responses to requests for information no later than ..... 03/10/2016
- WSKY shall file its rebuttal testimony, if any, of its rebuttal witnesses no later than ..... 03/21/2016
- Public Hearing to be held at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of WSKY and Intervenors..... to be announced
- Briefs, if any, shall be filed ..... to be announced

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00382 DATED **DEC 09 2015**

1. Provide on an electronic storage medium in Microsoft Excel format the monthly usage data for each WSKY customer in gallons of water for the test period.
2.
  - a. Provide a current organization chart that shows the corporate structure of WSKY and all of its affiliated companies.
  - b. Provide a description of all regulated and nonregulated business activities of each company listed in the organization chart provided in response to Item 2.a. above. This description should include, but not be limited to, the amount of revenues and expenses reported from each regulated and nonregulated activity for the year ended December 31, 2014, and the number of customers served by each regulated operation.
  - c. Describe the accounting and internal control policies and procedures that are in place to ensure that all financial transactions are charged to the proper company and that non-regulated operations are properly separated and reported from regulated operations.
3. Provide all work papers, show all calculations, and state all assumptions that WSKY used to develop its pro forma test-period financial information. For all work papers and calculations that exist in an electronic spreadsheet format, provide on an electronic storage medium an electronic copy that is capable of being read and manipulated using Microsoft Excel.

4. a. State whether any of the internal accounting manuals, directives, policies, and procedures that WSKY submitted in Case No. 2010-00476<sup>3</sup> have been modified, amended, or replaced.

b. For each manual, directive, policy or procedure that has been modified, amended, or replaced, provide the current version of the document and identify the portions of the current version that differ from the document that WSKY previously provided.

5. Provide a schedule listing and describing each project included in the test-year Construction Work in Progress ("CWIP").

6. a. Provide a test-period general ledger for WSKY that includes all asset, liability, capital, income, and expense accounts that clearly shows all account numbers, subaccount numbers, account titles, subaccount titles, and all entries to each account for the 12 months of the test year. For each entry, indicate the date paid, vendor name, check number used to make payment, and the amount. Also, distinguish all entries made to record costs directly assigned to WSKY from those made to record an allocation of common costs to WSKY.

b. Provide on an electronic storage medium in Microsoft Excel format the test-period general ledger.

7. a. For each cash account used by WSKY during the test-period, provide a cash disbursements ledger that lists all checks in chronological order and details the date paid, check number, vendor, and amount.

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<sup>3</sup> Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC filed Jan. 9, 2011), WSKY's response to Commission Staff's First Request for Information, Item 4 (filed Feb. 15, 2011).

b. Provide on an electronic storage medium in Microsoft Excel format the test-period cash disbursements ledger.

8. Provide all audit adjustments made for the test-period financial statements.

9. a. For each employee of WSKY, Water Service Corporation, or an affiliate who had wages charged to WSKY during the test year, provide:

(1) Name of the company that is responsible for payroll tax withholdings and payments;

(2) Employee's name;

(3) Title;

(4) Length of employment;

(5) Job duties;

(6) Test-period pay rate and current pay rate;

(7) Test-period regular time worked and overtime worked;

(8) Total test-period wages allocated to WSKY, Water Service Corporation, and any other affiliate;

(9) Total test-period payroll expensed and capitalized by WSKY;

(10) Percentage of test-period payroll capitalized by WSKY; and

(11) Type of employee benefits (e.g., health insurance, dental insurance, vision insurance, pension) and the amount reported by WSKY.

b. Provide on an electronic storage medium in Microsoft Excel format for the information requested in Item 9.a. above.

c. Provide the employer retirement contribution rate(s) that were in effect during calendar years 2012, 2013, 2014, and 2015, and the date the rate(s) became effective.

d. If the employer retirement contribution rate changed or will change in calendar year 2015, provide the initial rate, the reason for the change, the new rate, and the effective date of the change or proposed change.

10. a. Identify all employees listed in the response to Item 9.a. who are no longer employed by WSKY, Water Service Corporation, or an affiliate.

b. For each employee identified in the response to Item 10.a. above:

(1) If the employee's position has been filled, identify the employee currently in the position and state the date on which the replacement employee(s) was hired, his or her actual annualized salary and actual benefit information, and the salary and employee benefit costs that are included in WSKY's pro forma operating expenses.

(2) If the position is currently vacant, state:

(a) The reason(s) why the position is vacant;

(b) The current status of WSKY's efforts to fill the position and the anticipated hire date;

(c) Whether the cost of the position is included in the pro forma salaries and wage expense; and

(d) If the cost of the position is included in the pro forma salaries and wage expense, the position costs that are included in the test-period

operating expenses (e.g., payroll expenses, payroll capitalized, retirement, payroll taxes, and insurance benefits) and the accounts to which each amount was charged.

11. a. Provide a schedule detailing each test-period expenditure related to the application filed in this proceeding. Provide in the schedule the nature and amounts of each charge.

b. Provide the vendor invoice for each expenditure listed in response to Item 11.a. above. The invoices should contain detailed descriptions of the services, the amount of time billed for each service, and the hourly billing rate. Identify the account number and title to which each amount was charged.

c. Provide a monthly update of the schedule requested in Item 11.a. that shows total costs incurred as of that date and that includes the supporting detailed vendor invoices as requested in Item 11.b. above.

12. a. Describe WSKY's long-term construction planning program and provide all memoranda and internal documents in which the program is discussed and approved.

b. Describe the process used by WSKY's parent companies to determine the systemwide level of annual capital investment budgets.

c. Describe the process used by WSKY's parent companies to determine how the annual capital budgets are divided between their subsidiaries.

13. Provide a complete copy of all wage, compensation, and employee benefits studies, analyses, or surveys conducted for or used by WSKY, Water Service Corporation, or an affiliate.

14. For each water operation employee group, state the amount, percentage of increases, and effective dates for:

a. General wage increases granted for the years 2012, 2013, 2014, and 2015.

b. Merit wage increases granted for the years 2012, 2013, 2014, and 2015.

15. Describe each early retirement plan or other staff reduction programs WSKY, Water Service Corporation, or an affiliate offered its employees during 2012, 2013, 2014, and 2015 or intends to offer during 2016, and provide all cost-benefit analyses performed for each program.

16. Provide a detailed list of all fringe benefits available to employees of Water Service Corporation and its affiliates, the cost of each benefit in 2012, 2013, 2014, and 2015, and the expected cost of each benefit to be provided in 2016. Indicate which fringe benefits, if any, are limited to management employees.

17. List separately the budgeted and actual numbers of full- and part-time employees by employee group, by month and by year, for 2012 through 2015.

18. Provide complete details of Other Post-retirement Employee Benefits package(s) offered by Water Service Corporation and its affiliates.

19. Provide all current labor contracts and the most recent contracts previously in effect.

20. Provide a copy of each group medical insurance policy that Water Service Corporation and its affiliates currently maintain.

21. List each property leased to WSKY and state the amount of the annual lease payment.

22. Provide a calculation of federal and state income tax expense, including a reconciliation of book to taxable income for 2013 and 2014 in the format provided in Schedule 22, as shown at the end of this Appendix.

23. a. Provide each service agreement or contract that WSKY has with an affiliate company.

b. Describe the pricing policies of WSKY and its affiliates regarding affiliate company transactions.

24. a. List and describe each good or service that is provided to WSKY by any affiliated company.

b. Describe the benefits that WSKY derives from an affiliate providing the goods or services identified in Item 24.a. above.

c. List and describe each good or service that WSKY provides to an affiliated company.

25. a. Provide a schedule<sup>4</sup> that lists the allocated expenses from Water Service Corporation, or another affiliate, to WSKY by month for the test period.

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<sup>4</sup> The schedule should present the requested information in the same format that WSKY used in Case No. 2013-00237, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates*, in its response to Commission Staff's First Request for Information ("Staff's First Request") (filed Oct. 11, 2013), Item 27.a.

b. Provide a schedule<sup>5</sup> that lists the direct charges from Water Service Corporation, or another affiliate, to WSKY's direct expenses by month for the test period.

c. Provide on an electronic storage medium in Microsoft Excel format, the information requested in 25.a. and 25.b. above.

26. Provide each monthly invoice that Water Service Corporation, or another affiliate, issued to WSKY for the test period.

27. a. Identify the electric utility that serves WSKY's facilities in Middlesboro.

b. Provide the monthly bills that were rendered to WSKY during the test period for electric service to its facilities in Middlesboro.

c. State the rate schedule(s) under which the electric utility provides electric service to WSKY facilities in Middlesboro. If service is provided under more than one rate schedule, list for each rate schedule the facilities that are served under that rate schedule.

28. a. Identify the electric utility that serves WSKY's facilities in Clinton.

b. Provide the monthly bills that were rendered to WSKY during the test period for electric service to its facilities in Clinton.

c. State the rate schedule(s) under which the electric utility provides electric service to WSKY facilities in Clinton. If service is provided under more than one rate schedule, list for each rate schedule the facilities that are served under that rate schedule.

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<sup>5</sup> The schedule should present the requested information in the same format that WSKY used in Case No. 2013-00237, *Water Service Corporation of Kentucky*, in its response to Staff's First Request (filed Oct. 11, 2013), Item 27.b.

29. Provide an electronic version of the cost-of-service study filed with WSKY's application in Microsoft Excel format. All formulas contained in the electronic version should be self-contained and without any linked references to or macro commands involving external files.

30. Provide a list, with descriptions, of all activities, initiatives, or programs undertaken or continued by WSKY since its last general rate case for the purpose of minimizing costs or improving the efficiency of its operations or maintenance activities.

WSKY Corporation of Kentucky  
 Case No. 2015-00382  
 Adjusted Jurisdictional Federal and \_\_\_\_\_ State Income Taxes\*  
 For the 12 Months Ended \_\_\_\_\_

Schedule 22  
 Page 1 of 3  
 Witness Responsible: \_\_\_\_\_

Line No.	Description	At Current Rates			At Proposed Rates	
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjustments (4)	Adjusted (5)
1	Operating Income Before Income Taxes	\$	\$	\$	\$	\$
2	Reconciling Items:					
3	Interest Charges					
4	Tax Accelerated Depreciation					
5	Book Depreciation					
6	Excess of Tax Over Book Depreciation					
7	Other Reconciling Items (Specify and List)					
8	Total Reconciling Items					
9	Taxable Income					
10	Income Tax Rates:					
11	\$ _____ @ _____ %					
12	\$ _____ @ _____ %					
13	\$ _____ @ _____ %					
14	\$ _____ @ _____ %					
15	Over \$ _____ @ _____ %					
16	Federal (State) Income Tax Liability					

\*Separate Schedules should be completed for the Federal and State calculations.

WSKY Corporation of Kentucky  
Case No. 2015-00382  
Adjusted Jurisdictional Federal and \_\_\_\_\_ State Income Taxes\*  
For the 12 Months Ended \_\_\_\_\_

Schedule 22  
Page 2 of 3  
Witness Responsible:  
\_\_\_\_\_

Line No.	Description	At Current Rates			At Proposed Rates	
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjustments (4)	Adjusted (5)
17	Investment Tax Credits	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
18	Federal (State) Income Taxes – Current	_____	_____	_____	_____	_____
19	Deferred Income Taxes:					
20	Tax Accelerated Depreciation					
21	Tax Straight-Line Depreciation	_____	_____	_____	_____	_____
22	Excess of Accelerated Over Straight-Line Depreciation					
23	Deferred Income Tax @ _____ %					
24	Amortization of Prior Years Deferred Income Taxes	_____	_____	_____	_____	_____
25	Net Deferred Income Taxes Resulting from Depreciation					
26	Investment Tax Credit Deferred					
27	Amortization of Prior Year ITC	_____	_____	_____	_____	_____

\*Separate Schedules should be completed for the Federal and State calculations.

WSKY Corporation of Kentucky  
Case No. 2015-00382  
Adjusted Jurisdictional Federal and \_\_\_\_\_ State Income Taxes\*  
For the 12 Months Ended \_\_\_\_\_

Schedule 22  
Page 3 of 3  
Witness Responsible:  
\_\_\_\_\_

Line No.	Description	At Current Rates			At Proposed Rates	
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjustments (4)	Adjusted (5)
28	Investment Tax Credit – Net	\$	\$	\$	\$	\$
29	Other Tax Deferrals (Specify and List Separately)	_____	_____	_____	_____	_____
30	Total Deferred Income Taxes	=====	=====	=====	=====	=====
31	Total Federal (State) Income Taxes (18 + 30)	=====	=====	=====	=====	=====

\*Separate schedules should be completed for the Federal and State calculations.

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